

EXHIBIT 1

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1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF PUERTO RICO

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1 THE WITNESS: Yes. And I will have
2 to go a little bit backwards in time --
3 back in time -- to put in perspective the
4 \$2 billion transaction.

5 That was a proposal made by the end
6 of 2004 by Citibank. And it required a
7 bill from the central government, because
8 the structure that was proposed was that
9 the central government make a bond issue
10 for \$2 billion and passed the proceeds of
11 those bond issuance to the system, but
12 the central government will maintain the
13 liability and the obligation to pay for
14 those bonds.

15 And that would actually affect the
16 extra-constitutional debt of the central
17 government.

18 In the bill that was -- by the end
19 of 2004, the legislative assembly was not
20 in session and we were not able -- I say
21 "we" because I was a Senator at that
22 time -- we were not able to address the
23 bill introduced by the central government
24 at that time because we were not in
25 session. So it was not acted upon.

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1 The new government in 2005 through
2 the option made some changes to the
3 proposed legislation and presented it to
4 the Puerto Rico legislative assembly at
5 the beginning of 2005, maybe mid-2005.

6 The original bill that was presented
7 in 2005 was acted upon the Senate and it
8 received amendments.

9 One of the most important ones was
10 to increase the employers' and employee
11 contributions to the system of -- in
12 stages, increasing the employee
13 contribution from 8.275 up to 10 percent,
14 and the employer contribution from 9.275
15 to 12 and a half percent -- I think it
16 was in a period of five years that that
17 increase was to be established, increases
18 of half a point or 50 percent -- 50 basis
19 points increases for every year, among
20 other things.

21 And the House received the project
22 but never acted upon it. They sit on it.
23 They didn't ask for public hearings or
24 anything at all.

25 So even though during the four-year

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1 term that the legislative assembly, it's
2 schedule to -- or they were elected to
3 act, they can at any time bring that
4 project to the forum to be addressed or
5 to be voted upon.

6 There have been so many months that
7 nothing had happened.

8 But it was the understanding of the
9 central government that the House was not
10 going to act on that bill.

11 So we were looking for other
12 alternatives. And Merrill Lynch at that
13 time presented an unrequested proposal to
14 the Government Development Bank to
15 address the situation of the system and
16 the bank evaluated that proposal.

17 And after their evaluation, they
18 sent it to the system. Mr. Salazar sent
19 it to me, so I can take a look at it, and
20 see what I think about the option or the
21 proposal that Merrill Lynch was proposing
22 at that time.

23 BY MR. PAPEZ:

24 Q. Okay. Let me unpack that and ask
25 you a couple of questions, first of all.